

**Alabama Trust Fund  
Board of Trustees Meeting  
August 18, 2016  
State Capitol, S-100**

Pursuant to public notice, a meeting of the Alabama Trust Fund Board of Trustees was held on August 18, 2016. The meeting was called to order at 10:00 AM by Secretary, Young Boozer. The roll was called by Secretary Boozer and recorded as follows with a quorum present.

**Present:**

Mr. Bill Newton, Vice Chair  
Mr. Young Boozer, Secretary  
Mr. Daniel Hughes  
Mr. Sam Upchurch  
Mr. Edgar Pruitt  
Dr. Sandra Sims-deGraffenried  
Mr. Richard Bielen

**Absent:**

Governor Robert Bentley, Chair  
Mr. Guice Slawson, Jr

The first decision item was the review and approval of the minutes of May 26, 2016. Upon a motion made by Mr. Pruitt, and a second by Mr. Upchurch, the reading of the minutes was dispensed and the minutes were unanimously approved as presented.

Mr. Boozer then reviewed the quarterly financial reports. He noted the Balance Sheet as of June 30, 2016 indicates total assets of \$2.68 billion, an increase of approximately \$5 million for the quarter. Liabilities are about the same as last quarter and total Capital is \$2.608 billion. The Statement of Revenues and Expenditures indicates total revenues of almost \$42 million. We had an increase in investment income, realized gains and a small increase in oil and gas royalty revenues. Oil and gas receipts for the quarter were a little over \$10 million and year to date are \$31 million. If you straight line that out for the full fiscal year it equates to only \$40 million in royalties. There are a several of reasons for the change. They are a decline in production and a significant decline in price. Since this report the price has increased slightly from \$1.90 to \$2.60 per MCF. Mr. Boozer also reported that he talked with an Exxon field representative who reported that they have reworked some of the wells which should increase production and extend the life of the wells until 2042.

Mr. Boozer also reported that securities lending income was \$372 thousand for the quarter, right on target, with no downgrades. The stewardship account for the Forever Wild Land Trust has a balance of \$29 million. Regions bank manages the short term investment fund. The fund has outperformed for the year and is right on the index for the last quarter. The Alabama Capital Improvement Trust Fund, a similar fund has a balance of \$6.4 million and is managed by Regions Bank the same way with similar results.

Mr. Boozer then recapped Mr. Clouse's bill (House Bill 36) in the legislature that would pay back approximately \$448 million borrowed from the Trust Fund. He explained that the resulting increase in invested assets would increase the distribution back to the General Fund.

Mrs. West, our financial consultant then began her review. She noted the second quarter started out strong but Brexit was a big concern. The market dropped significantly, but as quickly as it went down it went back up. Both Large Cap Equities and Small Cap Equities were in positive territory for the quarter. It was a very difficult quarter for managers. More than 50% of the managers were unable to beat the benchmark. Energy rebounded significantly and was the best performing sector for both Large Cap and Small Cap stocks. Growth had been outperforming value, but this quarter value out performed growth. Emerging markets performed

well as commodity prices rebounded. Fixed income markets continue to surprise us. Investment grade credit and high yield were the best performing sectors.

Asset allocation was within rebalancing ranges. The portfolio has a slight underweight to Large Cap Equity and a slight over weight to International Equity.

The return for the quarter was 1.95 percent. We did outperform our target which was 1.8 percent. All of that came from managers adding value, particularly fixed income and real estate managers. Real estate has done well as reflected in these numbers.

The one year numbers are slightly less than the quarterly numbers. We did have some negative quarters and 2015 wasn't a very good year. The return for the one-year period was 1.87 percent. The asset allocation, over weight to International Equity did detract, but managers of growth, specifically International and Small Cap added to performance.

In terms of ranking versus other endowment foundations, the fund ranked in the top quartile for the quarter, as well as the last year, three years and five years.

The fund had investment income and unrealized gains of approximately \$47 million for the quarter with outflows of over \$50 million for withdrawals and distributions.

A conversation then ensued about the need to promote the success of the Trust Fund in light of the recent legislative issues. The agreement was that Mr. Newton and Mr. Boozer would work on something in the next few months.

Mrs. West went on to point out that RBC Global, hired in the second quarter as one of our Emerging Markets Managers had already added value. Beginning with an initial investment of \$30 million they are currently at \$31.8 million.

Ms. West reviewed the managers noting that RSA has a high tracking error. Last quarter they were down 20 bps, 30 bps for the year and 20 bps for the last five years. She noted that C. S. McKee is being terminated, and will be replaced by a Russell 1000 value index manager. We will make that decision today. C.S. McKee had another tough quarter down 2.6 percent. Intech our Large Cap growth manager had a good quarter up 2.95 percent beating the bench mark by 2.3 percent. On the Small Cap side, we saw mixed performance. Atlanta Capital did well up 12 percent versus the benchmark for the quarter which was up 8 percent. This quarter they are up 10 bps; last year they beat the benchmark by 11 bps. Smith group struggled down one percent to the benchmark which was up 3.2 percent. However, over the last year they are still up one percent to the benchmark. Vulcan Value Partners, which is our Small Cap Value manager has been struggling, down 5.6 percent year to date versus the Russell 2000 value index. However, since its inception they are basically even with the benchmark.

On the Large Cap side, growth outperformed value so it's not surprising that Artisan beat the benchmark by a small amount. Invesco trailed the benchmark by 2 percent but they are still up over 2.5 percent for the year. Lazard was even with the benchmark, up 2.8 percent for the year. Thompson Segal our value oriented International Equity manager struggled this quarter. They were down 2.2 percent for the quarter but still very strong since inception. On the Small Cap side, American Century our International Equity growth manager had a negative performance but still beat the benchmark by 30 bps. GMO struggled down 2.9 percent, and 5 per cent for the year. Wells Fargo who at one time was on our watch list, have come back strong, up 4.5 percent for the quarter beating the benchmark by 3.9 percent for the year. WCM continues to do well up 2.2 percent relative to the benchmark. All three Fixed Income managers beat the benchmark and on the real estate side Angelo Gordan continues to deliver strong returns.

Fiscal year to date the fund is up 6.78 percent beating the benchmark by approximately 40 bps.

The flash report for July shows a very strong month in Domestic Equity, International Equity and Fixed Income markets. Unrealized gains were almost \$19 million with a net of a little over \$2.5 million. C.S. McKee did bounce back a little, both Intech and Atlanta Capital had disappointing months. On the International Equity side only Thompson Segal beat the benchmark. American Century beat the benchmark and GMO had a nice return of 5 percent. Wells Fargo, RBC and WCM did well. On the Fixed Income side all three managers outperformed the benchmark. The fund was up 2.6 percent for the month of July, 3.82 percent for the year, and January through July 6.4 percent.

On the watch list, C. S. McKee was terminated at our last meeting. Mrs. West is also recommending termination for the other manager on the watch list; Aberdeen. Not for performance, but due to significant management personnel turn over and a significant loss of investment capital. Mrs. West stated that they are down to \$700 million in managed assets and we represent \$221 million of that amount. She stated that she asked Treasurer Boozer to speed up the process, so the RFP has been issued.

Sam Upchurch motioned and Dr. de-Graffenried seconded the motion to terminate Aberdeen as an Investment manager. The motion was approved.

Discussion then ensued about how to best expedite the process. Mr. Boozer made a motion to empower the investment committee to do the review and make the decision to be ratified by the board. Mr. Upchurch seconded the motion. The motion was approved.

Ms. West reviewed the results of the RFP to replace C. S. McKee. Six responses were received, analyzed by our internal review committee and reduced to three. Blackrock, Northern Trust Asset Management and State Street Global Advisors. She then reviewed the proposal of each of these. Noting that all three are close in performance and fees. She recommended State Street Global Advisors because they are more flexible in what they can do; they offer the most options. Sam Upchurch made a motion to approve State Street Global Advisors. Rich Bielen seconded and the motion was approved.

Ms. West then reviewed the CMT Fund Performance. For the quarter they are up 1.28 percent but they did trail the benchmark by 40 bps. The underperformance was all due to the International Equity portfolio. All three managers underperformed. The one-year number is 1.76 percent beating the benchmark by 35 bps.

The three-year number for the CMT Fund is over 6 percent; the five-year number still trails the benchmark. She highlighted only one manager because the other managers are shared with the ATF. That manager, Regions did have a positive quarter up 1.8 percent but still trailing the benchmark. For the year they are up 4.9 percent but they trail the benchmark by almost 100 bps. The five year numbers also trail the benchmark and their ranking is in the bottom percentile among core fund managers.

The July flash report for the CMT indicates an increase in assets of almost \$13 million. At the end of the month the fund was up to \$459 million. The total fund is up 2.89 percent for the month of July, 3.83 percent for the last twelve months and 6.11 percent year to date.

There being no other business the meeting adjourned.

---

Bill Newton, Vice-Chairman

---

Young Boozer, Secretary